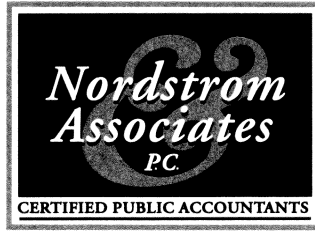


CITY OF FLAGSTAFF, ARIZONA
SINGLE AUDIT REPORT PACKAGE
JUNE 30, 2002

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MEMBERS
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona

We have audited the general purpose financial statements of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2002, and have issued our report thereon dated October 2, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such as opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

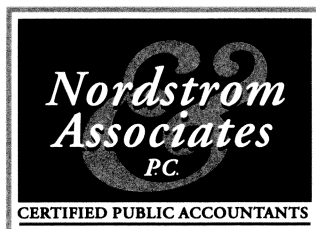
In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

This report is intended for the information and use of the audit committee, management, others within the organization, the city council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nordstrom & Associates, P.C.

Flagstaff, Arizona
October 2, 2002

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Godfrey C. Loper Jr., CPA
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Timothy D. Hansen, CPA



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona

COMPLIANCE

We have audited the compliance of City of Flagstaff, Arizona (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2002. The City's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the general purpose financial statements of the City as of and for the year ended June 30, 2002, and have issued our report thereon dated October 2, 2002. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information and use of the audit committee, management, others within the organization, the city council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nordstrom & Associates, P.C.

Flagstaff, Arizona
October 2, 2002

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of City of Flagstaff, Arizona.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the general purpose financial statements of the City were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs for the City.
7. The programs tested as major programs included:
 - 20.106Airport Improvement Program
 - 14.218Community Development Block Grant Program
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City did qualify as a low-risk auditee.

CITY OF FLAGSTAFF, ARIZONA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2002

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2001	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2002
Department of Agriculture							
<i>Direct Programs:</i>							
Cooperative Forestry Assistance	10.664	01-DG-11030420-592	\$ 45,000	-	5,888	29,263	23,375
<i>Passed through Arizona State Land Department</i>							
Cooperative Forestry Assistance	10.664	ASLP Title VIII, #01	16,000	-	-	16,000	16,000
Cooperative Forestry Assistance	10.664	SFA-1010	150,000	-	46,805	110,443	63,638
Cooperative Forestry Assistance	10.664	ASLD G-08	7,500	-	-	2,745	2,745
Subtotal				-	46,805	129,188	82,383
Total Department of Agriculture				-	52,693	158,451	105,758
Department of Housing and Urban Development							
<i>Direct Programs:</i>							
Community Development Block Grant/Entitlement Grants	14.218	B-98-MC-04-0510	728,000	20,548	50,070	29,610	88
Community Development Block Grant/Entitlement Grants	14.218	B-99-MC-04-0510	732,000	43,080	156,974	133,063	19,169
Community Development Block Grant/Entitlement Grants	14.218	B-00-MC-04-0510	732,000	88,820	115,456	126,607	99,971
Community Development Block Grant/Entitlement Grants	14.218	B-01-MC-04-0510	757,000	-	223,138	405,408	182,270
Community Development Block Grant/Entitlement Grants	14.218	B-02-MC-04-0510	726,000	-	-	142,435	142,435
Community Development Block Grant/Entitlement Grants	14.218	B-03-MC-04-0510	142,435	-	-	142,435	142,435
Total Department of Housing and Urban Development				152,448	545,638	979,558	586,368
Department of Interior							
<i>Passed through Northern Arizona University:</i>							
Cultural Resource Management	15.224	PAA 01 7002	182,207	88,826	178,819	93,381	3,388
Total Department of Interior				88,826	178,819	93,381	3,388
Bureau of Justice Assistance							
<i>Direct Programs:</i>							
Local Law Enforcement Block Grant	16.592	99-LB-VX-7699	71,493	(45,742)	-	45,742	-
Local Law Enforcement Block Grant	16.592	2001-LB-BX-2388	60,610	-	60,610	56,220	(4,390)
Bulletproof Vest Partnership Program	16.607	00002417	8,876	5,089	10,089	5,000	-
Subtotal				(40,653)	70,699	106,962	(4,390)
<i>Passed through Arizona Criminal Justice Commission</i>							
Byrne Formula Grant Program	16.579	AL-140-01	183,090	83,134	83,134	-	-
Byrne Formula Grant Program	16.579	AL-140-02	209,860	-	144,580	209,860	65,280
Subtotal				83,134	227,714	209,860	65,280
Total Bureau of Justice Assistance				42,481	298,413	316,822	60,890

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2002

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2001	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2002
Department of Justice							
<i>Direct Programs:</i>							
Executive Office of Weed and Seed	16.595	1999 Weed and Seed	\$ 50,000	26,644	20,322	-	6,322
Public Partnership & Community Policing Grants	16.710	95-CF-WX-3033	750,000	45,919	49,254	3,335	-
Total Department of Justice				72,563	69,576	3,335	6,322
Federal Aviation Administration							
<i>Direct Programs:</i>							
Airport Improvement Program	20.106	AIP 3-04-0015-17	1,867,428	747,621	1,824,129	1,076,508	-
Airport Improvement Program	20.106	AIP 3-04-0015-18	136,336	-	34,724	34,724	-
Airport Improvement Program	20.106	AIP 3-04-0015-19	1,650,000	-	1,494,228	1,506,789	12,561
Airport Improvement Program	20.106	AIP 3-04-0015-20	3,802,808	510,088	580,464	2,356,691	2,286,315
Airport Improvement Program	20.106	AIP 3-04-0015-21	5,213,792	-	83,461	1,500,509	1,417,048
Total Federal Aviation Administration				1,257,709	4,017,006	6,475,221	3,715,924
Department of Transportation							
<i>Passed through Arizona Department of Transportation:</i>							
Highway Planning and Construction-2000 SPR	20.205	T00-49-A0013	67,000	18,131	18,131	-	-
Highway Planning and Construction-2001 PL	20.205	T00-49-A0013	50,000	28,470	36,971	8,501	-
Highway Planning and Construction-2001 SPR	20.205	T00-49-A0013	80,000	12,234	15,000	2,766	-
Highway Planning and Construction-2002 PL	20.205	T00-49-A0013	100,000	-	6,365	31,653	25,288
Highway Planning and Construction-2002 SPR	20.205	T00-49-A0013	80,000	-	11,625	42,625	31,000
Highway Planning and Construction-FHWA	20.205	T00-49-A0013	122,063	122,063	-	-	122,063
Subtotal				180,898	88,092	85,545	178,351
<i>Passed through Arizona's Governor's Office of Public Safety</i>							
State and Community Highway Safety	20.600	2001-01JDP-010	10,000	-	1,397	3,329	1,932
Total Department of Transportation				180,898	89,489	88,874	180,283
Federal Transit Administration							
<i>Passed through Arizona Department of Transportation:</i>							
Transit Planning and Research-2001 FTA(09)	20.514	T00-49-A0013	47,246	2,434	26,632	44,812	20,614
Total Federal Transit Administration				2,434	26,632	44,812	20,614

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2002

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2001	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2002
Department of the Treasury							
<i>Direct Programs:</i>							
Alcohol, Tobacco and Firearms-Training Assistance	21.052	ATC010066	\$ 55,000	25,307	55,000	29,693	-
Alcohol, Tobacco and Firearms-Training Assistance	21.052	ATC020062	53,358	-	-	31,788	31,788
Total Bureau of Alcohol, Tobacco and Firearms				25,307	55,000	61,481	31,788
Institute of Museum and Library Services							
<i>Passed through State of Arizona Department of Library, Archives and Public Records:</i>							
State Library Program	45.310	981-3-2-(2)	7,770	(2,388)	-	-	(2,388)
Total Institute of Museum and Library Services				(2,388)	-	-	(2,388)
Department of Health and Human Services							
<i>Passed through Arizona Governor's Community Policy Office:</i>							
Children's Justice Grants to States	93.643	CJAG 2001-65	5,000	-	-	4,170	4,170
Preventive Health & Health Services Block Grant	93.991	Healthy Aging 2010	4,463	-	2,231	896	(1,335)
Total Department of Health and Human Services				-	2,231	5,066	2,835
Total Expenditures of Federal Awards				\$ 1,820,278	5,335,497	8,227,001	4,711,782

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2002

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Amounts presented on the Schedule are recorded in the General, Special Revenue and Enterprise Funds.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the 2002 *Catalog of Federal Domestic Assistance*.

Note 3 – Subrecipients

From the federal expenditures presented in the schedule, the City expended the following to subrecipients.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 569,004

CITY OF FLAGSTAFF, ARIZONA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2002

Note 4 – Pass-Through Grantor's Reference

The following are nonfederal agencies that have passed through federal monies to the City:

<u>Pass-Through Agency</u>	<u>Pass-Through Grantor Number</u>
Northern Arizona University:	
Cultural Resource Management	PAA 01 7002
Arizona State Land Department:	
Cooperative Forestry Assistance	ASLP Title VIII, #01
Cooperative Forestry Assistance	SFA-1010
Cooperative Forestry Assistance	ASLD G-08
Arizona Criminal Justice Commission:	
Byrne Formula Grant Program	AL-140-01
Byrne Formula Grant Program	AL-140-02
State of Arizona Department of Library, Archives and Public Records:	
State Library Program	981-3-2-(2)
Arizona Department of Transportation:	
Highway Planning and Construction	T00-49-A0013
Transit Planning and Research-2001 FTA(09)	T00-49-A0013
Arizona Governor's Office of Public Safety:	
State and Community Highway Safety	2001-0JJDP-010
Arizona Governor's Community Policy Office	
Children's Justice Grants to States	CJAG 2001-65
Preventative Health & Health Services Block Grant	Healthy Aging 2010